

VIRGINIA FINANCIAL PERSPECTIVE

A REPORT TO THE CITIZENS OF THE COMMONWEALTH FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Prepared by the Department of Accounts
December 31, 2001

James S. Gilmore, III
Governor

John W. Forbes
Secretary of Finance

David A. Von Moll
Acting Comptroller

EXECUTIVE SUMMARY - PURPOSE OF THIS REPORT

The purpose of this report is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are independently audited by the Auditor of Public Accounts. Much of the information in the audited financial statements is necessarily technical and complex. As a result, the full financial statements may not be particularly useful to the citizens of the Commonwealth who wish to better understand state government finances.

Ten years ago, Virginia began issuing simplified financial reports, commonly referred to as *popular reports*. These reports are intended to better inform the public about their government's financial condition, without excessive detail or the use of technical accounting terms.

This report summarizes and explains the information contained in the financial statements for fiscal year 2001, along with other information on the Commonwealth's finances, in easily understood terms. This report represents the ongoing commitment of Commonwealth officials to keep Virginia's citizens informed about state finances, and to be accountable in all respects for the receipt and expenditure of public funds.

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Virginia's Economy

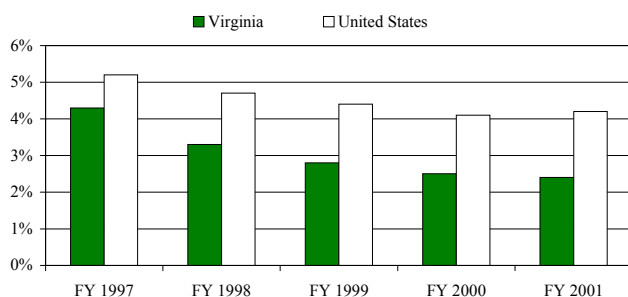
Each year the CAFR includes a section describing the Commonwealth's economic outlook. For fiscal year (FY) 2001 an economist at the University of Virginia's Weldon Cooper Center for Public Service prepared this review of the Virginia economy. Most of the analysis is based on measures of the past five fiscal years with emphasis on last year. When the text was prepared in late September, following the close of the fiscal year, there was great uncertainty about the economic outlook. The dislocations stemming from attacks on the World Trade Center and the Pentagon were overlaid on an already slowing national economy. However, because this is a historical review, there will be no further mention of these developments.

FY 2001 saw a slowing of the national economy as the record-breaking expansion that began in 1991 lost steam. Virginia's economy performed remarkably well for the year as a whole, although there were signs of slowing in the latter part of the fiscal year.

Employment and income are the two broad economic measures that give the best picture of major developments. Unemployment was at its lowest point in recent history in FY 2001. Persons without work constituted 2.4 percent of the labor force (**Figure 1**). Such low rates are characteristic of an economy with only frictional unemployment, the unavoidable unemployment associated with people leaving and entering the labor force and normal job turnover.

Unemployment Rate

Figure 1



Virginia's unemployment was well below the national average, which itself was low by standards of the last twenty years. As the year progressed, unemployment rates in Virginia and the U.S. did rise, indicating that rough economic weather might be ahead.

Figure 2 shows growth of Virginia's nonagricultural employment as well as personal income growth data. Near the end of FY 2001, growth of personal income slowed to 0.9 percent, slightly above the U. S. average, but the lowest growth rate since the second quarter of calendar year (CY) 1992. In relation to growth of U. S. personal

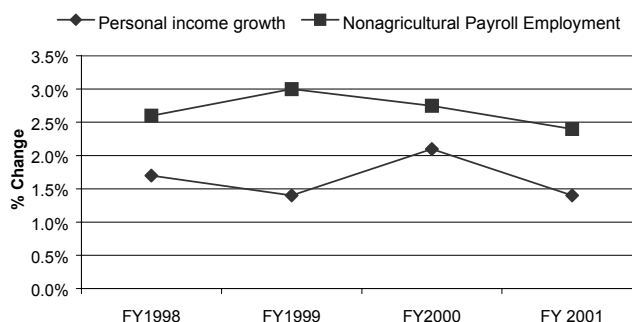
income, Virginia's income gain has usually outperformed the nation.

According to preliminary estimates for CY 2000, Virginians had a per capita income of \$31,065, an amount 106 percent of the national average and providing the state a rank of fourteenth from the top. A decade earlier, the relationship to the national average was 105 percent, and the ranking was the same. Among its neighbors, Virginia's per capita income exceeded incomes in North Carolina, Tennessee, Kentucky, and West Virginia, but was lower than incomes in the District of Columbia and Maryland.

In FY 2001 Virginia's nonfarm payroll employment rose by 82,800. Virginia's total employment growth of 2.4 percent was well above the national average of 1.3 percent. This was a good showing but 8,800 below the gain in the preceding year. Over half of the net increase was in private services with much of that gain in the business services.

Economic Indicator Growth Rates

Figure 2



An important sector with declining employment was the federal government. Its Virginia payroll dropped by 2,500. For a number of years the federal government has been using private contractors to carry out functions previously performed by federal employees. Thus, at least part of the decline probably was offset by gains in private service employment attributable to federal contracts.

Federal contracts are a major driver for the Virginia economy. In federal fiscal year 2000, which ended in September 2000, the state accounted for 9.6 percent of federal contract awards. On a per capita basis, it ranked second in the nation. Only the District of Columbia had a higher amount. Virginia's federal contracts are concentrated in Northern Virginia and the Norfolk-Virginia Beach-Newport News areas. The value of contracts fluctuates from year to year primarily because of the long lead-time for military hardware. In FY 2000 federal prime contracts in Virginia rose by 12 percent.

The 2000 census confirmed the state's strong growth during the last decade. Virginia's population of 7.2

million ranked it fourteenth among the states. Its population growth of 14.4 percent was nearly 10 percent faster than the U.S. average. Among the adjoining states, Virginia had a higher growth rate than Maryland, Kentucky, and West Virginia. North Carolina (+21.4 percent) and Tennessee (+16.7 percent) grew faster. The District of Columbia lost population. Within the state, the fastest growth was in the Northern Virginia MSA (the Virginia portion of the Washington, DC-MD-VA-WV MSA). That area, which now accounts for nearly one-third of the population, grew by 25.1 percent.



FINANCIAL STATEMENT INFORMATION

This section contains Financial Statement Information for the Commonwealth of Virginia for the fiscal year ending June 30, 2001.

Virginia state government reports on its finances on the basis of a *fiscal year* which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began on July 1, 2000, and ended on June 30, 2001. This is referred to as fiscal year 2001, or FY 2001.

Virginia's financial information is prepared by the Department of Accounts, an executive branch agency, under the direction of the Governor and the Secretary of Finance. The information is then audited by the Auditor of Public Accounts, who is an official of the legislative branch of government. In this way, the audit process is independent. The financial information for FY 2001 was audited and received an unqualified auditor's opinion.

Virginia accounts for its revenues and expenditures within various *funds*. The largest fund supporting the operation of state government is the General Fund, which accounts for the majority of receipts from income and sales taxes. Another important fund is the Commonwealth Transportation Fund, which receives revenues from gasoline taxes, vehicle registration fees and a portion of sales taxes. A third fund is the Higher Education Fund, which accounts for financial activity of state colleges and universities. A fourth large fund is the Pension Trust Fund, which includes the assets of the state employees' pension system. The Enterprise Fund includes two other activities familiar to most Virginians, the state lottery and the sale of alcoholic beverages.

Virginia accounts for its revenues and expenditures under two different methods of accounting. The Virginia Constitution and laws passed by the General Assembly require that all accounting be on a *cash basis*. This means that revenue is recognized when cash is received and expenditures are recognized when cash is paid out. Cash basis accounting is simple and easily verified. Therefore,

it is the best way to demonstrate that state agencies are complying with laws that govern spending.

The other method of accounting used in Virginia involves the application of *accounting principles generally accepted in the United States of America*, or *GAAP*. GAAP is defined by national standard setting bodies, and is the method of accounting required when Virginia sells bonds. Only financial information prepared on a GAAP basis can be audited in accordance with accepted practice and receive an unqualified opinion from the Auditor of Public Accounts.

Commonwealth Balance Sheet and Income Statement- GAAP Basis

A *balance sheet* summarizes the assets, liabilities and equity of an organization. As of the end of FY 2001, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$87.3 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of \$27.6 billion, leaving state government with a *total equity* (the amount left after liabilities are subtracted from assets) of \$59.7 billion. **Figure 3** is a condensed balance sheet for the Commonwealth as of June 30, 2001.

A balance sheet for government is similar to one for a private sector business in some respects, but different in others. One of the principal differences is the asset line item labeled *Amount to be Provided for the Retirement of Long-Term Debt and Pension Liability*.

This item represents the value of legally enforceable commitments of the Commonwealth, and its various authorities, to provide funds for the payment of long-term debt, primarily tax-exempt bonds, and to provide funds for the payment of future pension costs, when they come due.

Information is presented in this report on the GAAP basis of accounting, and also, for the general fund, on the budgetary (cash) basis. Labels have been used to note which basis of accounting is being shown.

This Popular Report contains information from only selected funds and account groups and does not include all of the State's component units. Component units are legally separate entities that are accountable to the State. Only the balance sheet on page 4 includes all of the State's funds, account groups, and component units.

The full financial statements of the Commonwealth of Virginia, together with other economic and demographic information, are published in Virginia's Comprehensive Annual Financial Report, or CAFR. Requests for copies of the CAFR should be directed to the address given on the last page of this report.

The income statement (**Figure 4**) summarizes the results of the State's operations, on a GAAP basis, for the fiscal year. Virginia recognized \$19.0 billion in revenues and \$1.9 billion in other sources, which was used to pay for \$18.5 billion of expenditures and \$2.8 billion of other uses.

Although the total equity of Virginia is substantial and confirms the overall financial health of the Commonwealth, it is equally important to look at the financial condition of some of the individual *funds*.

Balance Sheet (GAAP Basis)

As of June 30, 2001

(Dollars in Millions)

Figure 3

ASSETS:

Cash and Investments	\$ 57,737
Accounts and Other Receivables	12,564
Due from Other Funds	906
Inventory	250
Property, Plant and Equipment	11,615
Amount Available for Long-Term Debt	28
Amount to be Provided for Retirement of Long-Term Debt and Pension Liability	3,919
All Other Assets	256
Total Assets	\$ 87,275

LIABILITIES and EQUITY:

Liabilities:	
Accounts and Other Payables	\$ 2,307
Long Term Liabilities	14,745
Due to Other Governments	524
Due to Other Funds	906
Deferred Revenues and Credits	893
Security Lending Obligations	3,095
All Other Liabilities	5,119
Total Liabilities	27,589
Equity:	
Higher Education Property and Equipment	5,089
Other State Property and Equipment	4,142
Contributed Capital	1,035
Fund Balances /Retained Earnings	49,420
Total Equity	59,686
Total Liabilities and Equity	\$ 87,275

Income Statement (GAAP Basis)

For the Fiscal Year Ended June 30, 2001

(Dollars in Millions)

Figure 4

REVENUES:

Taxes	\$ 12,493
Rights and privileges	596
Institutional Revenue	403
Interest, Dividends, Rents, and Other	
Investment Income	415
Unclaimed Property Sales	45
Federal Grants and Contracts	4,214
Proceeds from Security Lending Transactions	15
Other	860
Total Revenues	19,041

OTHER FINANCING SOURCES

Total Operating Transfers In	1,517
Proceeds From Capital Leases and Sale of Bonds	404
Total Other Sources	1,921

TOTAL REVENUES AND OTHER SOURCES

\$ 20,962

EXPENDITURES:

General Government	\$ 1,255
Education	4,709
Transportation	3,018
Resources and Economic Development	663
Individual and Family Services	6,286
Administration of Justice	2,123
Debt Service and Payments for Securities Lending Transactions	325
Capital Outlay	146
Total Expenditures	18,525

OTHER FINANCING USES

Total Operating Transfers Out	2,834
Total Other Uses	2,834

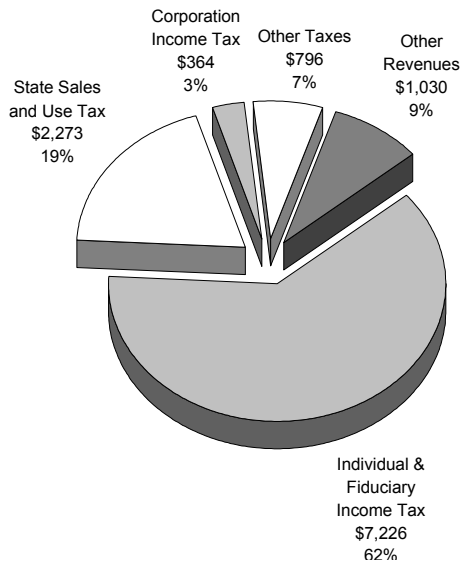
TOTAL EXPENDITURES AND OTHER USES

\$ 21,359

General Fund – Cash Basis

During FY 2001 the General Fund received \$11.7 billion in resources. **Figure 5** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 62% of the resources, while sales and use taxes made up 19%. These revenues plus other revenues totaled \$11.2 billion, or 95%. The remaining monies totaling \$528 million came through transfers from other funds, including alcoholic beverage sales and lottery profits.

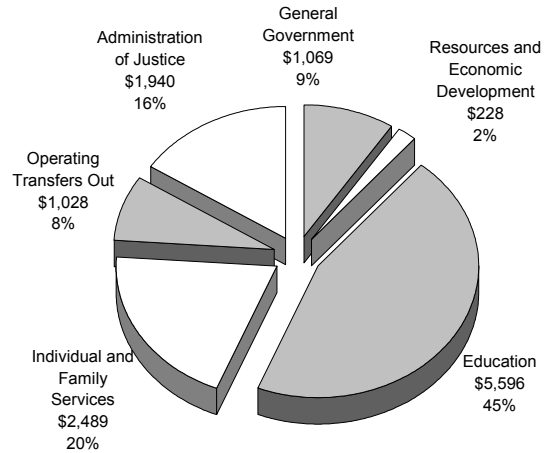
Figure 5
General Fund Revenue
FY 2001, Cash Basis
(Dollars in Millions)



Revenues (not including transfers) increased by \$329 million over FY 2000. Individual and fiduciary income tax revenues, which grew by 6% compared to last year, played the major role in this growth.

General Fund disbursements, including transfers, for FY 2001 (**Figure 6**) totaled \$12.3 billion. Expenditures totaled \$10.0 billion and transfers to other funds were \$2.3 billion. Education accounted for 45% including direct state aid for primary and secondary schools and General Fund transfers to support state colleges and universities. Support for social services, Medicaid, public health, and mental health consumed 20% of the General Fund. Public safety disbursed 16%, while only 9% was used to support the administration of general governmental operations.

Figure 6
General Fund Disbursements
FY 2001, Cash Basis
(Dollars in Millions)



Expenditures (not including transfers) increased by \$858 million over the prior year. Of the total increase, education accounted for 31%, individual and family services accounted for 17% and public safety for 19%.

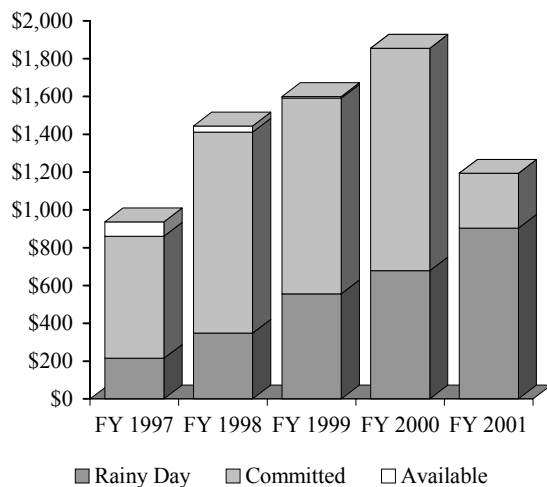
General Fund expenditures and net transfers exceeded revenues by \$661 million on the cash basis. In other words, the General Fund had an operating loss for the year on the cash basis, caused in part by an economic slowdown.

Figure 7 shows the General Fund balance - cash basis - at the end of each year since 1997. Virginia's General Fund balance at the end of FY 1997 was \$937.2 million. FY 1998's strong result boosted the balance to \$1,444.2 million. FY 1999's and FY 2000's continuing strong economy brought the balance to \$1,599.6 million and \$1,855.3 million, respectively. The FY 2001 economic slowdown contributed towards a reduction in the General Fund balance to \$1,194.1 million.

**General Fund Balance - Cash Basis
Highlighting the Available Fund Balance**

(Dollars in Millions)

Figure 7



These balances are made up of “committed” funds, “available” funds, and the “rainy day” fund.

Balances are “committed” if there are plans in place for their use. “Available” balances may be used by the Governor and General Assembly for new projects or programs. At the end of FY 2001, as at the end of FY 2000 there was no available balance.

The “rainy day” fund, or Revenue Stabilization Fund, is required by an amendment to the State Constitution, which was approved by the voters on November 7, 1992. The General Assembly is required to appropriate additional reserves to this fund when revenue collections are strong compared to the average for the previous six years. This reserved portion of the General Fund balance can only be used if state revenues decline sharply from the previous year.

The total amount reserved in FY 2001 is \$902.7 million. It is made up of \$79.9 million from 1993 collections, \$66.6 million from 1995 collections, \$58.3 from 1996 collections, \$123.8 million from 1997 collections, \$194.1 million from 1998 collections, \$103.3 million from 1999 collections, \$187.1 million from FY 2000 collections, and \$89.6 million in interest. Collections for FY 1994 did not require a contribution and a contribution is not required for FY 2001.

General Fund - GAAP Basis

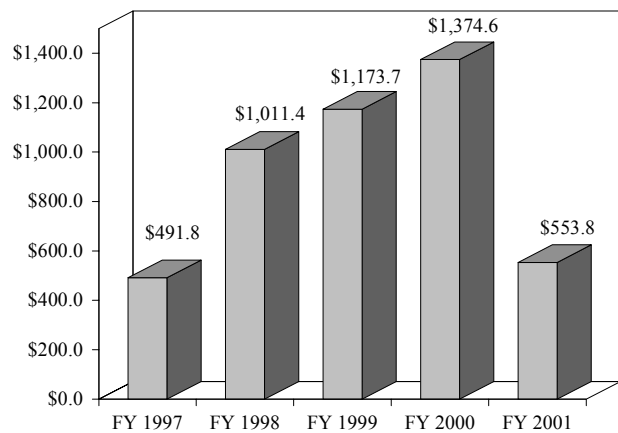
When accounted for on a *GAAP basis*, the General Fund’s FY 2001 operating loss of \$747 million decreased fund balance to \$553.8 million, compared to a balance of \$1,374.6 million in FY 2000 (**Figure 8**). Virginia fully

adopted GAAP financial reporting in FY 1983, and experienced GAAP deficits from FY 1990 through FY 1992 as a result of a recession. Another deficit in FY 1995 was primarily the result of a federal retiree lawsuit. Beginning with FY 1996, Virginia has experienced positive GAAP fund balances. GAAP deficits may occur in Virginia without violating the state Constitution or statutes that prohibit deficit spending. However, if a General Fund GAAP deficit were to continue over time, agencies that rate state debt could view this as a problem for state finances.

General Fund Balance - GAAP Basis

(Dollars in Millions)

Figure 8



GAAP accounting requires that Virginia recognize certain assets and liabilities that are not recognized on the cash basis of accounting. Overall, the additional liabilities recognized under GAAP exceeded the additional assets, reducing fund balance to a greater degree than is recognized on a cash basis of accounting. Several future liabilities are particularly significant (**Figure 9**). One is for *estimated tax refunds due* of \$415.7 million, which is an estimate of the state income taxes withheld during FY 2001 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2001 of \$330.5 million. The third item is an amount of estimated *Medicaid claims payable* of \$155.6 million, which represents medical services rendered in prior years that will not be paid for until FY 2002.

Figure 9 compares the General Fund on a cash and GAAP basis of accounting.

Analysis of General Fund Balance
Cash Basis versus GAAP Basis
For Fiscal Years Ended June 30, 2001 and 2000

(Dollars in Millions)

Figure 9

	FY 2001	FY 2000
Fund Balance, Cash Basis	\$ 1,194.1	\$ 1,855.3
ADD:		
Sales Taxes Receivable	206.8	218.8
Other Taxes Receivable	295.6	294.3
Other Receivables	112.9	83.7
Inventory	36.9	33.9
Other Accrued Items	13.2	(26.8)
Total to be Added	665.4	603.9
LESS:		
Tax Refunds Payable	330.5	193.7
Estimated Tax Refunds Due	415.7	356.1
Medicaid Claims Payable	155.6	145.6
Sales Taxes Due to Localities	137.5	138.4
Other Accrued Items	266.4	250.8
Total to be Subtracted	1,305.7	1,084.6
Difference	(640.3)	(480.7)
Fund Balance, GAAP Basis	\$ 553.8	\$ 1,374.6

Note: The July 1, 2000 beginning General Fund balance has been restated by \$73.8 million for adjustments to prior year corporate tax payables and sales tax receivables.

Commonwealth Transportation Fund - GAAP Basis

The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports.

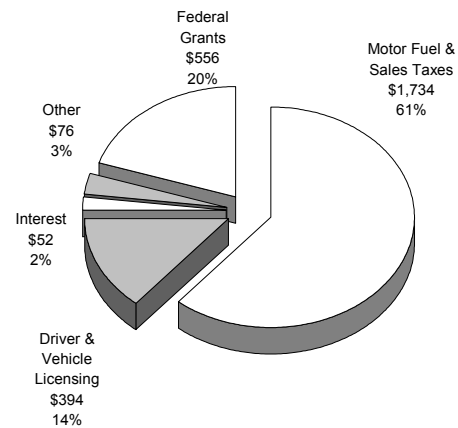
The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 66,936 miles of state roads.

The Commonwealth Transportation Fund (**Figure 10**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

These revenue sources include the tax on motor fuel, vehicle registration and titling fees, and driver licensing fees. Also, since 1986, one half cent of the state's sales tax is deposited into this fund.

During FY 2001, the Commonwealth Transportation Fund had revenues and other receipts of \$3.6 billion and

Figure 10
Commonwealth Transportation Fund
Revenue Sources
FY 2001, GAAP Basis
(Dollars in Millions)



expenditures and other uses of \$3.3 billion on a GAAP basis. At the end of FY 2001, the fund had a balance of \$965 million measured on a GAAP basis.

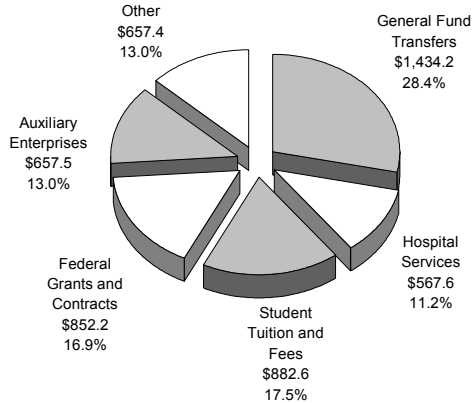
Highway construction projects often require several years to complete. As of the end of FY 2001, the state had \$2.1 billion in outstanding construction contracts for various highway projects. State revenues contribute approximately 70.5% of the funding for these projects. The federal government provides 21.8%, and 7.7% comes from bond proceeds. Local governments also contribute to the cost of highway construction.

Higher Education Fund - GAAP Basis

The Higher Education Fund accounts for transactions related to resources received and used for the operation of the Commonwealth's institutions of higher education and one teaching hospital. In FY 2001, Virginia colleges and universities had total current revenues and other sources of \$5.1 billion, which was a 10.9% increase from FY 2000. Current revenues generated \$3.5 billion. Revenues are derived from numerous sources including student tuition and fees, contracts, grants, private gifts, and sales and services through the hospital and auxiliary enterprises. Additionally, colleges and universities received transfers of \$1.5 billion. The General Fund was the source of \$1.4 billion of these transfers.

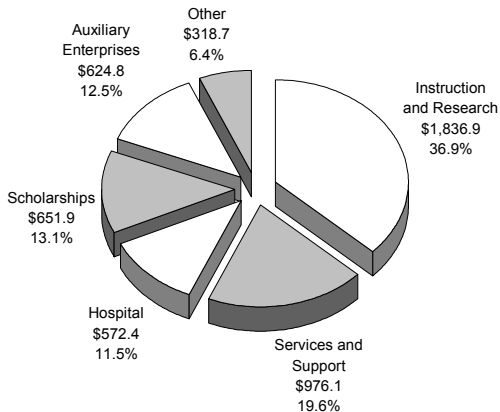
In terms of total resources for higher education in Virginia (**Figure 11**), the General Fund was the major contributor at \$1.4 billion in FY 2001, followed by student tuition and fees of \$883 million, federal grants and contracts of \$852 million, sales and services from hospitals and auxiliary enterprises (\$568 million and \$658 million, respectively), and private grants, gifts and other sources of \$657 million.

Figure 11
Higher Education Fund
Revenue Sources
FY 2001, GAAP Basis
(Dollars in Millions)



Total current expenditures and other uses (**Figure 12**) totaled \$5.0 billion, an 8.7% increase from FY 2000. Spending for instruction and research of \$1.8 billion accounted for 36.9% of higher education expenditures in FY 2001, followed by student services and support of \$976 million, scholarships and fellowships of \$652 million, auxiliary enterprises expenses of \$625 million, teaching hospital expenses of \$572 million, and other expenses and transfers of \$319 million.

Figure 12
Higher Education Fund
Expenditures and Uses
FY 2001, GAAP Basis
(Dollars in Millions)



Virginia colleges and universities have a total equity of \$8.0 billion, including \$5.1 billion in land, buildings and equipment. Colleges and universities account for 55.1% of the total property owned by the Commonwealth and reported in the CAFR. The value of college and university endowments totaled \$2.2 billion at the end of FY 2001.

Pension Trust Fund - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. The largest of these is the pension trust fund for state and certain local employees. This fund ended FY 2001 with a total equity of \$37.7 billion, and accounts for 76.3% of the Commonwealth's total equity held in all funds. During FY 2001 the fund received \$1.4 billion in contributions and lost \$3.1 billion on investment holdings. The decrease in net assets after the payment of retirement benefits, refunds and operating costs was \$3.2 billion (**Figure 13**).

On November 5, 1996, Virginia voters approved an amendment to the Constitution of Virginia which provided that funds of the Virginia Retirement System are trust funds held separate from other state funds. This amendment safeguards the trust funds from being used for any purpose other than paying benefits to members and beneficiaries. The amendment does not change the way the System is funded or organized.

Statement of Changes in Plan Net Assets **Pension Trust Fund - GAAP Basis** For the Fiscal Year Ended June 30, 2001

<i>(Dollars in Thousands)</i>	<i>Figure 13</i>
Additions:	
Contributions	\$ 1,433,131
Investment Income:	
Interest, Dividends and Other	
Investment Income	(2,948,592)
Securities Lending Income	149,148
Total Investment Income	(2,799,444)
Less Investment Expenses	250,908
Net Investment Income	(3,050,352)
Other Revenue	381
Total Additions	(1,616,840)
Deductions:	
Retirement Benefits	1,298,627
Refunds to Former Members	80,736
Retiree Health Insurance Credits	54,628
Insurance Premiums and Claims	88,179
Administrative Expenses	15,253
Other Expenses	170
Total Deductions	1,537,593
Net (Decrease)	(3,154,433)
Net Assets, July 1, 2000	40,841,373
Net Assets, June 30, 2001	\$37,686,940

A separately issued financial report that includes financial statements and required supplemental information is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Virtually all pension systems experience some gap between the amount that has been contributed and the amount that will be required to honor all promised benefits to both current and future retirees. This gap arises when benefits are added to the plan, and can also be produced by differences between the assumptions that are made in financing the trust fund and actual experience.

Employer and employee contributions are required by the *Code of Virginia*. The State pays the 5% of employees' annual salaries that its employees are required to contribute to the retirement system.

Employer contributions made for FY 2001 totaled \$240.5 million. This was less than the actuarially determined Annual Required Contribution of \$256.3 million, but did meet statutory requirements. The State has elected to allow employer contributions to include an annual amount that would phase in automatic cost of living adjustment funding requirements over a five-year period ending with FY 2002. When compared to other plans similar to Virginia's, the funding statistics indicate that Virginia's plans are adequately funded and financially sound. The pension obligation is included in the calculations of future state contribution rates so that a portion of this obligation is paid off each year.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 14**) accounts for all receipts and disbursements from the sale of lottery tickets for various games.

During FY 2001, the Lottery had revenues of \$1.0 billion and expenses, including lottery prize payments, of \$679 million. Income for the year, including interest earnings, was \$337 million. During FY 2001, \$330 million was transferred to the General Fund to be spent for public education as required by law. The Lottery Fund received \$7 million.

Revenues, Expenses and Changes in Retained Earnings State Lottery - GAAP Basis For the Fiscal Year Ended June 30, 2001

<i>(Dollars in Thousands)</i>	<i>Figure 14</i>
Operating Revenues:	
Charges for Sales and Services	\$ 1,002,829
Total Operating Revenue	1,002,829
Operating Expenses:	
Personal Services	18,654
Contractual Services	98,156
Supplies and Materials	8,362
Depreciation	3,801
Lottery Prize Expense	549,792
Total Operating Expenses	678,765
Operating Income	324,064
Nonoperating Revenues:	
Interest, Dividends and Rents	11,332
Other	1,132
Total Nonoperating Revenues	12,464
Income Before Transfers and Changes	336,528
Operating Transfers In	439
Operating Transfers Out	(337,043)
Net Income/(Loss)	(76)
Retained Earnings July 1, 2000	(953)
Retained Earnings June 30, 2001	\$ (1,029)

Alcoholic Beverage Control Fund - GAAP Basis

The "ABC" fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2001, ABC profits of \$28 million were distributed to the General Fund to use for current operations. Another \$12 million in ABC funds was transferred to the General Fund for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 2001 was \$40 million on \$340 million in total sales.

Risk Management (Self-Insurance) Program - GAAP Basis

The Commonwealth is "self-insured" for workers' compensation, property damage, general (tort) liability, medical malpractice and automobile insurance coverage. At the end of FY 2001, the self-insurance program had cash and other assets of \$96 million, while the estimated liability for claims payable was \$180 million. The program had additional liabilities of \$32 million, which resulted in a GAAP deficit balance of \$116 million.

The self-insurance program remains solvent because additional cash is constantly being provided from premiums paid by state agencies.

Debt Administration

The total outstanding debt on the books of the Commonwealth as of the end of FY 2001 was \$14.7 billion (**Figure 15**). Long term bonds and notes represent 92.3% of all debt, with the remaining 7.7% consisting of compensated absences, pension liabilities, capital leases, installment purchase contracts and various other payables.

Debt on the books of the Commonwealth can be classified into three categories: general obligation bonds of Virginia taxpayers, limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported), and debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 15**, a total of \$968 million, or 6.6% of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

The next category of debt, limited obligations which may use tax revenue, does not carry the "full faith and credit" of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include certain bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of higher education. A total of \$3.5 billion of this type of tax supported debt was outstanding at the end of FY 2001. This is 24% of all debt on the books of the Commonwealth.

State Debt		
Tax Supported and Non-Tax Supported		
As of June 30, 2001		
<i>Dollars in Thousands</i>	<i>Figure 15</i>	
TAX SUPPORTED DEBT		
General Obligation Bonds:		
Public Facilities Bonds	\$ 429,725	2.9%
Parking Facilities Bonds	10,325	0.1%
Transportation Facilities Bonds	182,904	1.3%
Higher Education Bonds	345,154	2.3%
Total General Obligation Bonds	968,108	6.6%
Other Tax Supported Debt:		
Transportation	929,160	6.3%
Port Authority	94,060	0.6%
Public Building Authority	994,801	6.7%
Innovative Technology Authority	11,120	0.1%
College Building Authority	289,830	2.0%
Long Term Capital Lease Payable	242,820	1.6%
Compensated Absences	484,330	3.3%
Pension Liability	284,081	2.0%
Biotechnology Research Park	28,235	0.2%
Regional Jail Construction	31,017	0.2%
Installment Purchase Obligations	67,499	0.4%
Other Long Term Obligations	86,434	0.6%
Total Other Tax Supported Debt	3,543,387	24.0%
Total Tax Supported Debt	4,511,495	30.6%
NON-TAX SUPPORTED DEBT		
Higher Education	360,535	2.4%
Housing Development Authority	5,710,287	38.7%
Pocahontas Parkway Association	405,460	2.8%
Public School Authority	2,074,290	14.1%
Virginia Resources Authority	662,343	4.5%
Other Long Term Obligations	1,021,286	6.9%
Total Non-Tax Supported Debt	10,234,001	69.4%
Total Commonwealth Debt	\$14,745,496	100.0%

Non-Tax Supported Debt makes up 69.4% of all debt in the Commonwealth. The majority of this debt is issued by various authorities that are created under state law to issue bonds to finance programs considered to provide a benefit to the public. Total debt in this category at the end of FY 2001 was \$10.2 billion.

The largest of these authorities is the Virginia Housing Development Authority, which has \$5.7 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority, Pocahontas Parkway Association, and the Virginia Resources Authority. Colleges and teaching hospitals also issue bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

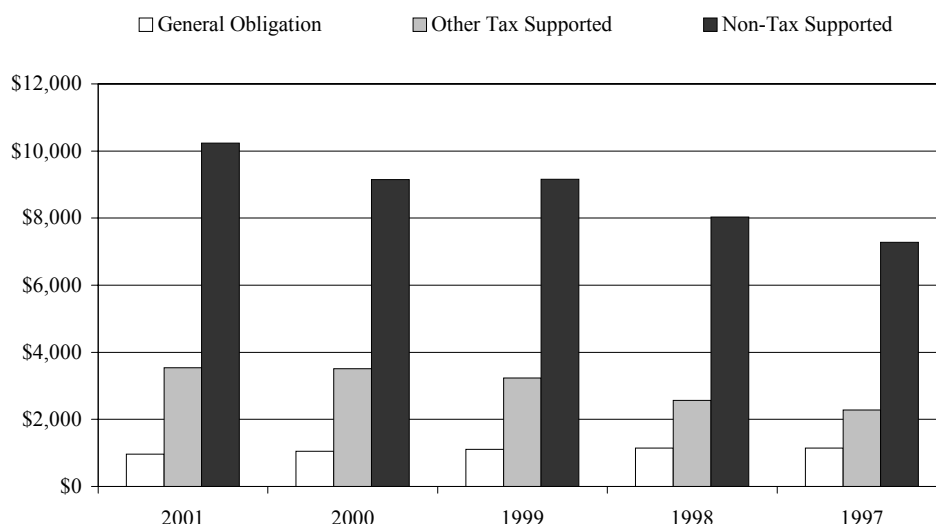
In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal

obligation of the Commonwealth. However, \$2.3 billion of the total carries a “moral obligation” promise by the Commonwealth to consider funding any deficiencies in debt service reserves from tax revenues. To date, no such deficiencies have occurred.

Figure 16 summarizes the outstanding debt owed by the Commonwealth in all categories over five fiscal years.

◆◆◆◆◆

Figure 16
Categories of Debt
(Dollars in Millions)



OTHER INFORMATION

The following section discusses other information which may be of interest to the reader. The information in the Cash Balances and Accounts Receivable topics are included, but not separately disclosed, in the state’s CAFR.

Much of the remaining information was reported in the State Comptroller’s “Report on Statewide Financial Management and Compliance for the Quarter Ended June 30, 2001.” This information is not included in the audited financial statements.

Cash Balances

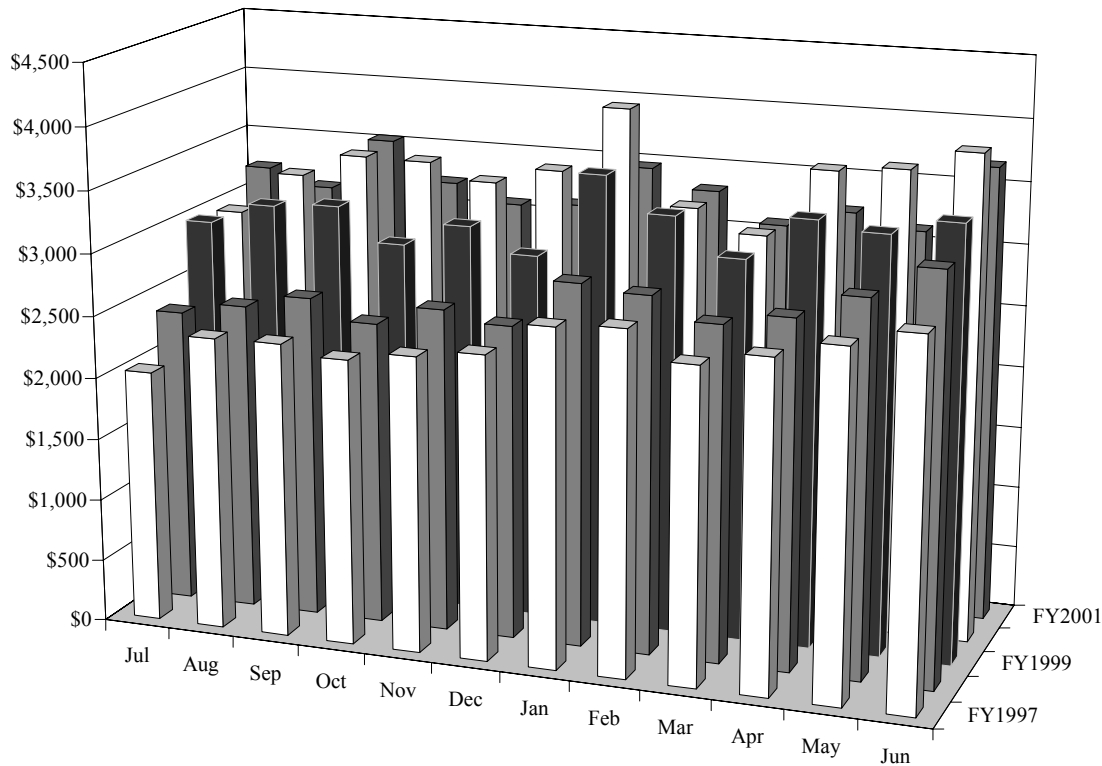
Although the Commonwealth uses a number of funds for financial reporting purposes, cash is concentrated in a few accounts under the control of the State Treasurer. These

accounts support all payments of state funds, while available cash balances are kept actively invested in secure, short-term securities. Of these accounts, the *general account* of the State Treasury is the most important because it includes cash from the great majority of the various state funds. These cash balances are monitored daily to ensure that funds are available to meet the obligations of the Commonwealth, and to maximize investment earnings on the available cash balances.

Figure 17 shows the monthly cash balances of the general account for the last five fiscal years.

The general account had an average daily investment balance of \$3.7 billion during FY 2001. Earnings by the Treasury were \$264.5 million. The Treasury measures its investment results monthly against comparable investment indices and is able to consistently outperform them.

Figure 17
General Account Cash Balances
By Month, FY 1996 - FY 2001
(Dollars in Millions)



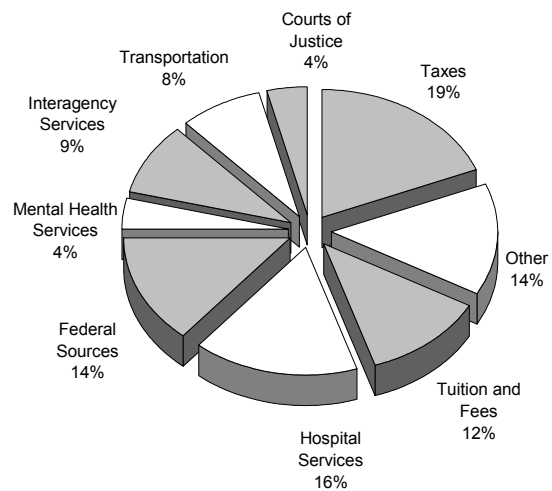
Accounts Receivable

At the end of FY 2001 state government agencies were owed \$2.0 billion. These amounts owed to state agencies are classified as *accounts receivable*, and are subject to a variety of collection programs. As is true with private businesses, certain state accounts receivable are not expected to be collected, and these are classified as "doubtful" or "uncollectible" accounts. The balance is considered collectible. Of the \$2.0 billion owed, \$886 million was considered collectible. These amounts are owed to the state from a variety of different sources (**Figure 18**).

Eight state agencies had the majority of all accounts receivable at the end of FY 2001 (**Figure 19**).

The largest sources of uncollectible receivables in state government include: unpaid tax assessments, fines and penalties levied by the State's courts, patient billings for services provided by mental hospitals and indigent care programs at the teaching hospital, unrecovered overpayments to Medicaid providers, and unpaid bills owed by businesses for unemployment insurance and workers' compensation insurance.

Figure 18
Collectible Receivables by Type
 As of June 30, 2001



Largest Accounts Receivable Agencies

As of June 30, 2001

Dollars In Thousands

Figure 19

<u>Agency/Institution</u>	<u>Gross</u>	<u>Allowance For Uncollectible Accounts</u>	<u>Collectible</u>
Department of Taxation	\$ 812,463	\$ 682,208	\$ 130,255
Courts of Justice System	372,207	332,076	40,131
UVA - Medical Center	155,152	9,355	145,797
Department of Social Services	90,766	23,134	67,632
Department of Education	72,458	19	72,439
Department of Transportation	66,168	568	65,600
Virginia Employment Commission	53,550	11,466	42,084
Department of Mental Health, Mental Retardation, And Substance Abuse Services	53,073	19,447	33,626
Total	1,675,837	1,078,273	597,564
All Other Agencies	333,367	45,253	288,114
Grand Total	\$ 2,009,204	\$ 1,123,526	\$ 885,678

Prompt Payment

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly and payments that are overdue more than seven days entitle vendors to collect interest. Agencies must achieve a 95% compliance rate with all payment provisions in order to be considered in compliance with the Virginia Prompt Payment Act.

Figure 20 shows that for FY 2001, the state made 98.0% of its payments on time, and that 95.4% of the dollars owed were paid in compliance with prompt payment requirements. The state paid \$75,681 in interest on late payments during FY 2001 on total vendor payments of \$4.2 billion.

Figure 20

Statewide Prompt Payment Statistics For FY 2001

Number of Late Payments	51,754
Total Number of Payments	2,631,631
Late Dollars (Thousands)	\$193,846
Total Dollars (Thousands)	\$4,176,608
Interest Paid	\$75,681
Percent of Payments in Compliance	98.0%
Percent of Dollars in Compliance	95.4%

Payment Systems

Virginia actively pursues administrative efficiencies and cost savings by promoting use of automated payment systems by state agencies. To reduce the number of state issued checks, Virginia uses Financial Electronic Data Interchange (EDI), also known as electronic banking. To consolidate payments for low dollar purchases the state uses the Small Purchase Charge Card.

Approximately 72,725 payments totaling \$13.9 billion were made in FY 2001 using EDI. This helped to avoid the issuance of approximately 158,838 checks. Electronic payments were made to over 3,900 grantees, vendors and localities.

Also in FY 2001, approximately \$131.2 million in small purchases (those \$5,000 or less) were made using the small purchase charge card program. This helped to avoid another 471,714 checks. As of June 30, 2001, 192 agencies were using 10,255 cards.

Further efforts to reduce the amount of resources consumed are made by using electronic systems for payroll payments. These include the elimination of paychecks for on average 89,757 employees who are paid through direct deposit to their bank accounts.

However, the state still writes approximately 8.3 million checks per year, including 1.9 million tax refunds, 3.0 million social service payments, 1.4 million general warrants, and 600,118 payroll checks.

Virginia's check printing systems were also modernized and integrated. The check printing and check signing/mailling operations, formerly divided between the Departments of Accounts and Treasury, are now integrated into a seamless operation within Treasury facilitated by expanded use of electronic payment files, new self-sealing check stock, and the replacement of technologically obsolete impact printers with high-speed laser printers.

Personal Property Tax Relief

During FY 1998, the General Assembly passed the Personal Property Tax Relief Act as proposed by Governor Gilmore. This means that the Commonwealth has assumed financial responsibility for a certain portion of the personal property taxes collected by localities over a five-year period beginning in 1998. There is no impact on local revenues. The Commonwealth will fund localities in an amount equal to the amount of tax relief.

Specifically, the tax owed on the first \$20,000 of the value of any car, truck or motorcycle held for personal use has been reduced by 70% through FY 2001. In 1998, the Commonwealth reimbursed taxpayers directly after they paid their personal property tax bills. Beginning in 1999, personal property tax bills sent by localities show the tax relief as a reduction in the amount owed on the personal property tax bills.

Figure 21 shows the schedule of the elimination of the personal property tax on the first \$20,000 of the value of qualifying vehicles through FY 2001.

Personal Property Tax Relief

Figure 21

Year	Percentage of Tax Relief
1998	12.5%
1999	27.5%
2000	47.5%
2001	70.0%

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2000. This is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal, and understandability. The award is valid for a period of one year only. It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.

Award for Outstanding Achievement in Popular Annual Financial Reporting

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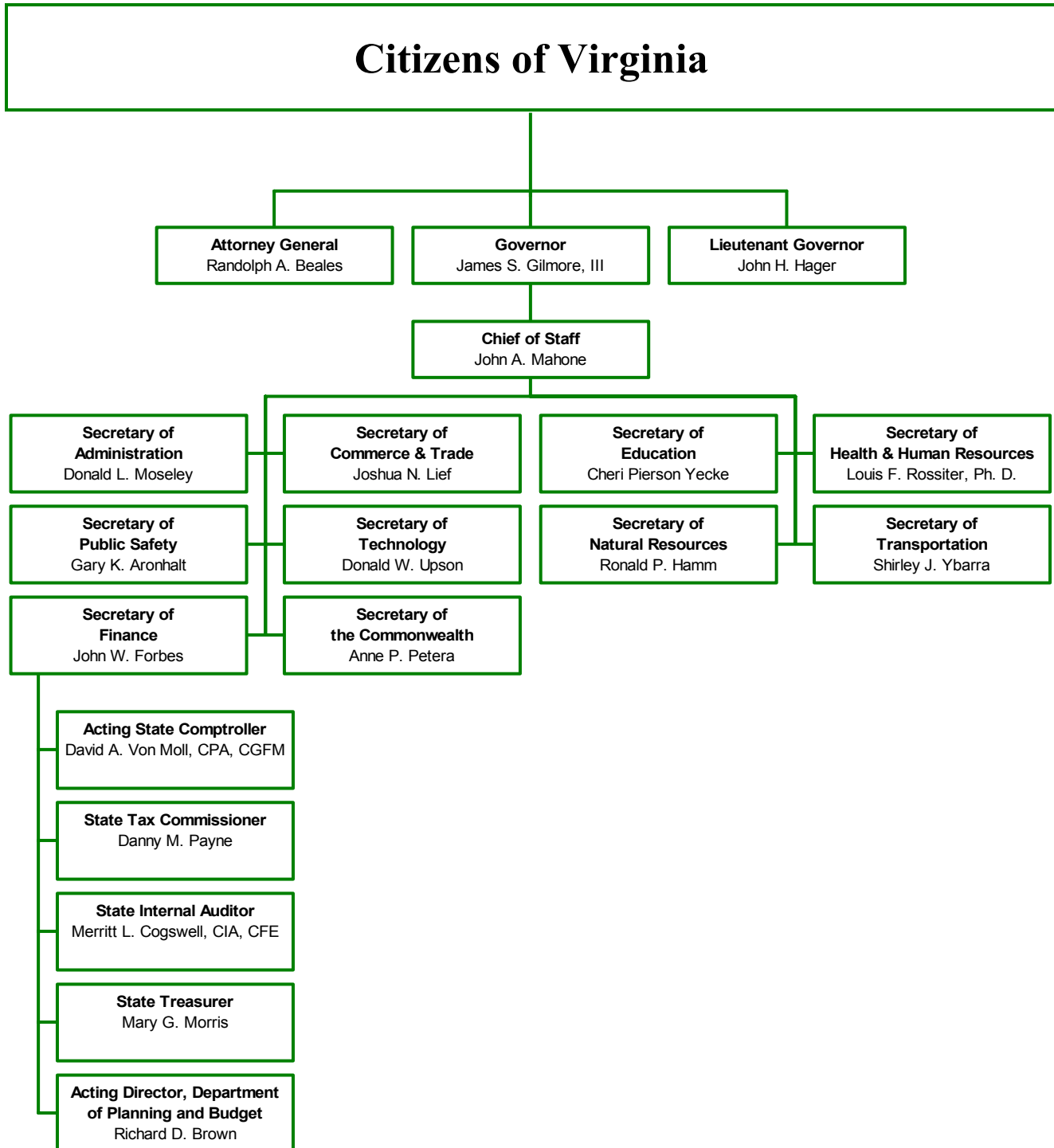
**For the fiscal year ending
June 30, 2000**

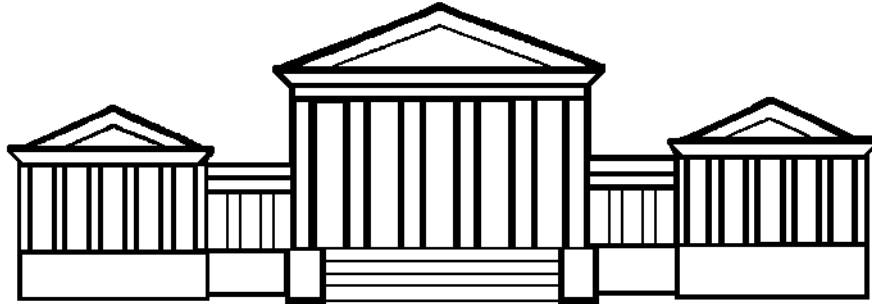


Imelda Chaves
President

Jeffrey L. Esser
Executive Director

**Organization of Government
Selected Government Officials - Executive Branch**





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Electronic Publishing Unit
Administrative Services Division
Virginia Department of Accounts
101 N. 14th Street, 2nd Floor
Richmond, Virginia 23219-3684
Voice: (804) 225-3051
E-mail: mrider@doa.state.va.us

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